

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE IMPLEMENTATION)
OF ECONOMIC DEVELOPMENT RATES BY ELECTRIC) ADMINISTRATIVE
AND GAS UTILITIES) CASE NO. 327

O R D E R

On July 1, 1988, the Kentucky Public Service Commission ("Commission") issued its Order in Case No. 10064.¹ Among other things, the Commission in this Order established guidelines or standards that electric and gas utilities would have to meet prior to Commission approval of a filed economic incentive tariff. The Commission provided copies of this section of the Order to all major gas and electric utilities in an effort to facilitate the filing and adoption of Economic Development Rates ("EDRs"). In its cover letter to the utilities, the Commission indicated it would use these guidelines to evaluate EDRs filed by both electric and gas utilities.

Since the issuance of the Order in Case No. 10064, there have been a number of electric utilities which have filed EDRs in the form of tariffs or contracts. In all cases, the Commission has suspended them and established a case to determine if the EDR is consistent with Commission guidelines. In addition to these tariffs and contracts, the Commission Staff has held a

¹ Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company.

number of informal conferences with both gas and electric utilities to discuss the Commission's guidelines on EDRs. As a result of both the contract and tariff filings and the informal conferences, a number of questions have been raised concerning both the application and interpretation of the guidelines.

The Commission in adopting its guidelines recognized the importance of EDRs to the marketing strategies of a number of utilities. In addition, it recognizes the potential equity concerns that may arise from the adoption of EDRs by the utilities. Because of both the importance of and concerns attached to EDRs, the Commission is concerned with whether the guidelines contained in the LG&E Order meet its public policy objectives. Therefore, the Commission is of the opinion that a complete examination of its policy on EDRs is appropriate and timely. In addition, it is the opinion of the Commission that the appropriate forum in which to consider this policy is a generic proceeding.

The Commission encourages all interested parties to participate in this proceeding. However, the following will be considered parties to the proceeding: Kentucky Power Company ("KPC"); Kentucky Utilities Company ("KU"); Louisville Gas and Electric Company ("LG&E"); The Union Light, Heat and Power Company ("ULH&P"); Big Rivers Electric Corporation ("Big Rivers"); East Kentucky Power Cooperative, Inc. ("EKPC"); Columbia Gas of Kentucky, Inc. ("Columbia"); Delta Natural Gas Company, Inc. ("Delta"); and Western Kentucky Gas Company ("Western Kentucky").

Finally, during this investigation the Commission will continue to review the proposed tariffs and/or contracts pending in Case Nos. 10379, 10422, and 10424,² and determine if they are consistent with the guidelines contained in Case No. 10064. If a filed tariff and/or contract is not consistent with these guidelines, the Commission will dismiss it without prejudice. The utility will then have the opportunity to either modify the tariff consistent with the guidelines established in Case No. 10064 or file a new tariff after this administrative case is completed.

Issues

To ensure that all facets of the EDR issues are addressed, the Commission has included a list of specific questions which electric and gas utilities will be required to address and other participants are encouraged to address. All participants are encouraged to offer any additional comments which may have a bearing on these issues.

1. Should the Commission authorize EDRs by electric and gas utilities in Kentucky? Explain.

a. Provide an explanation of the potential benefits that Kentucky ratepayers may receive from EDRs.

² Case No. 10379, The Notice of Louisville Gas and Electric Company for the Establishment of an Industrial Economic Development Rate; Case No. 10422, The Notice of Henderson-Union RECC of a Proposed Contract With Valley Grain Products, Inc., to Implement an Industrial Incentive Rate; and Case No. 10424, The Notice of Big Rivers Electric Corporation of a Proposed Contract with Henderson-Union RECC to Implement an Industrial Incentive Rate.

b. Provide an explanation of the potential costs to Kentucky ratepayers from implementation of EDRs.

c. Provide an explanation of studies that could be performed to justify and support the implementation of an EDR rate.

2. If the Commission authorizes the adoption of EDRs, what classes of services should it cover? Explain the basis for selecting each class.

3. If the Commission authorizes the adoption of EDRs, should it be restricted to new customers? Existing customers? Explain.

a. If authorized for existing customers, should EDRs be applied to existing load, incremental load, or both?

b. If authorized for existing customers, should there be a minimum incremental load necessary to qualify for the EDR?

c. If authorized for new customers, should the EDR be applied to the entire new load or only to load above some specified level?

d. Provide an explanation of how the Commission should determine base load for existing customers. What normalization can or should be used in determining it?

4. What utility objectives should be considered in establishing EDRs?

5. Should increases in employment and/or capital investment be required for customers qualified for the EDR class?

6. Should the Commission require utilities to structure EDRs to provide rate incentive to encourage additional employment and/or capital investment?

7. What criteria should the Commission use in determining whether an EDR achieves the utility's objectives? Explain.

a. Should the Commission require each EDR tariff to include an annual report from the EDR customers on its job creation and capital investment to the utility?

b. Should the Commission require each utility to provide an annual report on job creation and capital investment that results from the implementation of the EDR?

8. What is the appropriate method for implementing an EDR, e.g., contract, general tariff, etc.?

9. Provide an example of a contract and/or tariff containing the specific terms and conditions that an EDR should contain.

10. Should each customer be limited to a specific time period over which it can qualify for EDR benefits? If yes, what time frame?

11. Should a utility that offers an EDR be required to demonstrate that it has adequate capacity (with a sufficient reserve) to meet anticipated load growth each year in which the EDR is in effect?

a. What criteria should be used to demonstrate that the utility has adequate capacity?

b. Should there be a provision in EDR contracts to withdraw the tariff when the utility no longer has adequate reserves to meet anticipated EDR load growth?

12. If the Commission authorizes EDRs, what revenue requirements and/or cost tests should be considered to ensure that undue discrimination against other customers or customer classes does not occur? Explain.

a. If the Commission determines that utilities should be required to demonstrate that the EDR recovers all variable costs and contributes to system fixed costs, should this be done only in rate cases or more often?

b. Are there any circumstances under which the utilities should not be required to cover all variable costs? Explain.

c. If revenue deficiencies should result from an EDR, how should it be recovered?

(1) Entirely from stockholders? Ratepayers?

(2) Split between stockholders and ratepayers in a predetermined manner?

13. If the Commission authorizes EDRs, should utilities be required to recover customer-specific fixed costs from each EDR customer? If yes, explain method of recovery.

IT IS THEREFORE ORDERED that:

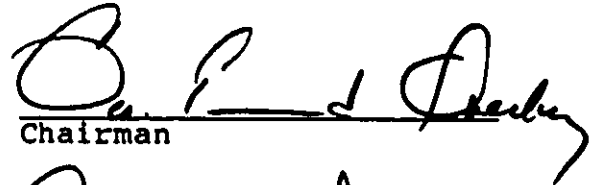
1. This investigation be instituted and that KPC, KU, LG&E, ULH&P, Big Rivers, EKPC, Columbia, Delta, and Western Kentucky are parties to this proceeding.

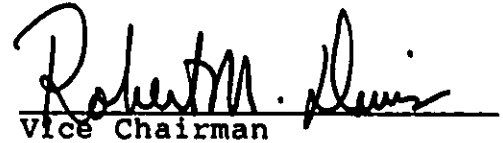
2. Responses to the issues listed above shall be considered testimony and shall be filed by KPC, KU, LG&E, ULH&P, Big Rivers, EKPC, Columbia, Delta, and Western Kentucky.

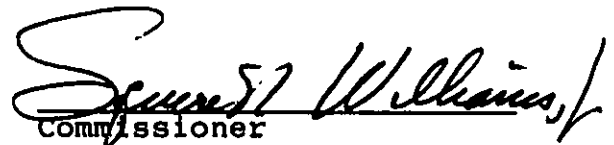
3. The procedural schedule, attached and incorporated hereto as Appendix A, be adopted.

Done at Frankfort, Kentucky, this 10th day of February, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION DATED FEBRUARY 10, 1989

PROCEDURAL SCHEDULE

Responses to Questions from February 10, 1989
Order Due (Responses will be considered
prefiled testimony. Each response should
identify witness responsible for it.).....March 28, 1989

Data Requests of All Parties to Utilities
Due.....April 14, 1989

Responses to Data Requests Due.....April 28, 1989

Prefiled Testimony of Intervenors Due.....May 17, 1989

Data Requests to Intervenors Due.....May 26, 1989

Intervenors Responses to Data Requests Due.....June 7, 1989

Hearing to Begin at 9 a.m. in the
Commission's Offices in Frankfort,
Kentucky.....June 15, 1989